The influence of ownership structure and political connections on tax avoidance in Indonesia

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ABSTRACT

This study intends to examine the influence of ownership structure and political connections on tax avoidance using the Book Tax Differences (BTD) method. The data used is industrial entities registered on the IDX for the 2019-2022 period. By utilizing the proportional sampling method, the study sample that fulfilled the criteria was only 40 companies so that 200 observational data were obtained which were used as the study sample. Panel data regression analysis is the chosen analytical method in this research which includes the Chow test, Hausman test, and hypothesis testing using Eviews as a data analytics tool. The test results imply that (i) government ownership negatively impacts tax avoidance, (ii) institutional ownership positively impacts tax avoidance, (iii) family ownership positively impacts tax avoidance, (iv) foreign ownership shows a non-significant positive impact on tax avoidance, and (v) political connections exhibit a non-significant negative impact on tax avoidance.

Introduction

State income comes from three parts, namely income from taxes, non-taxes and grants. So tax is a very important thing for a country because it has a very strategic role. Income originating from taxes can be used to finance all state needs, especially in implementing development. The Directorate General of Taxes hopes that taxpayers' contributions can fulfill their tax obligations in compliance with the prevailing tax laws in Indonesia. Taxpayers can assist in raising state revenue by fulfilling their tax obligations following applicable tax laws. Therefore, the government tries to optimize tax revenues so that each period reaches the desired targets.

This is contradictory to the company's perspective as a taxpayer looking at taxes, because there are still many taxpayers who consider taxes as a liability for companies. Firms or entities still consider taxes as a liability that will reduce the firm's net profit (Sari et al., 2020). According to Tarmizi & Perkasa, (2022), Taxpayers will endeavor to cut the taxes they are required to pay, either by legal or illegal means, which in turn encourages many corporations or other enterprises to choose tax avoidance. Septanta (2023) defines tax avoidance as the use of legal strategies and techniques by taxpayers to minimize their tax liabilities while avoiding violations of tax laws.

Data on Indonesia's economic growth in 2022 which has been released by BPS shows that Indonesia's tax ratio in 2022 is 10.38%, which is obtained from Indonesia's economic growth of 5.31% (Roeswan, 2023). The low tax ratio is closely tied to the issue of tax avoidance by manufacturing firms. The tax avoidance phenomenon in Indonesia occurred in 2020, where the Tax Justice Network reported the consequences of tax avoidance. Indonesia is forecasted to suffer losses of approximately 4.86 billion US dollars each year. As per the analysis, "The State of Tax Justice 2020: Tax Justice in the Time of Covid-19," tax evasion by corporations in Indonesia accounted for 4.78 billion US dollars of this amount. In this report, Indonesia holds the fourth position in Asia, following...
China, India, and Japan (Kompas.com, 2020). In accordance with this data, it shows that the level of tax avoidance in Indonesia is considered to be very high.

Based on the tax avoidance phenomenon above, it appears that there are several factors that are thought to be the reason for companies to avoid taxes, some of these factors include government ownership, institutional ownership, family ownership, foreign ownership, and political connections. The first factor is government ownership, Andriyanto & Marfiana, (2021) states that a company can be said to have government ownership if a significant proportion of the company's shares are under government control. Companies that have government ownership shares will pay higher taxes compared to companies without government ownership shares. According to Efendi et al (2022), when the governments owns more shares, there's less chance of tax avoidance happening.

Institutional ownership represents the second factor. Institutional ownership represents the portion of shares held by corporations or other entities, such as assurance companies, pension funds, banks, investment firms, and other institutional investors. The presence of institutional ownership within the corporations promotes improvement and oversight to optimize the performance of management, as share ownership serves as a form of authority that can be utilized to either bolster or challenge management (Septanta, 2023). According to Ayunanta et al (2020) the higher the institutional ownership, the more supervision over management. The monitoring performed by institutional investors will ensure shareholder prosperity.

The third factor, family ownership is ownership of shares in a corporation passed down through the family lineage, with subsequent descendants inheriting and directly continuing the business. Companies with a family ownership structure tend to prioritize the importance of non-tax costs, including costs that can arise from agency conflicts. Tanujaya et al (2021) states that tax manipulation in family companies is less likely because family companies care about the company's reputation. Therefore, companies with a family ownership structure tend to use protective principles in managing taxes.

The fourth factor is foreign ownership, foreign ownership referring to the proportion of shares held by individuals, governments, and legal entities with foreign status. It is crucial for a corporation as it signifies that the company is experiencing good growth, thereby attracting other investors to invest in the company (Rahmawati & Lisiantara, 2023). According to Hidayat & Mulda (2019) The heightened level of share ownership by foreign entities in a firm, the higher the firm will engage in tax avoidance.

The fifth factor, political connections often occur in developing countries, which is done by positioning parties who are close to the government, thereby establishing governmental connections within the organizational hierarchy, both from the company's commissioners and directors (Apriliani & Wulandari, 2023). Manihuruk & Novita (2023) defines a company as define a company as being politically connected whenever an executive is a government board member or has a relation with a high-level public official. Therefore, the more political connections a corporation has, the greater the tax avoidance that the company will carry out (Apriliani & Wulandari, 2023).

This study relies on previous studies carried out by Wulandari & Sudarma (2021) which examines government ownership, institutional ownership, family ownership, foreign ownership, profitability, leverage, company size and audit quality on tax avoidance projected using CETR. In this research, there is an expansion of the independent variable in which the researcher adds the political connection variable. The political connection variable is one of the variables suggested by research conducted by Sukendar et al (2022). In this study, researchers used the same dependent variable, but there was a transformation in a different method of calculating tax avoidance, namely using BTD as a metric for avoidance. This research goal is to ascertain the influence of ownership structure and political connections on tax avoidance using the Book Tax Differences (BTD) method.

Literature Review

Agency Theory

In accordance with Jensen and Meckling (1976) in (Rozan et al., 2023) an agency relationship is an attachment between the owner (shareholder) of a firm and the firm's management in assuming responsibility for authority in the interests of the owner. The relationship itself is not perfect because there are several agency problems. Alkurdi & Mardini (2020) states that ownership structure can unveil the characteristics of the principal-agent issue by illustrating the separation between management and shareholders within the company.

From the explanation above, it can be said that agency theory has a relationship to tax avoidance, where agency theory posits that tax avoidance is linked to numerous conflicts between managers and shareholders, leading to diminished share values. Generally, tax planning efforts boost after-tax cash flow, thereby increasing company value. This encourages managers to pursue tax avoidance strategies.

Absolute Obligation Theory

The theory of absolute tax liability, often referred to as the "Evidence Theory," originated from the concept of "Organische Staatsleer," which posits that the authority to collect taxes stems from the existence of the state. According to this theory, individuals cannot exist independently, thus necessitating the establishment of a state to impose tax obligations and other duties on all its constituents (Sariwati, 2021).
According to Goni et al (2022) this theory explains that the people are part of the state, so they are mandated to pay the taxes to the state to serve the state. From the theory above, it can be concluded that this theory requires people to realize that paying taxes is a necessity as proof of their devotion to the country so that a country's government can run well and smoothly.

**Tax Avoidance**

Tax avoidance, as defined by Suandy (2011), involves orchestrating tax payments to stay within the confines of tax regulations. Additionally, according to Septanta (2023) tax avoidance as the use of legal strategies and techniques by taxpayers to minimize their tax liabilities while adhering to tax laws. It can be deduced that tax avoidance is the legitimate and secure approach individuals use to evade taxes by exploiting legal loopholes.

According to Andriyanto & Marfiana (2021) from an agency theory perspective, major shareholders can use tax avoidance behavior as a shield to divert resources from the company, such as through transactions between related parties. Referring to the studies performed by Sari et al (2020) tax avoidance can be calculated through BTD, which is the difference between accounting profit and fiscal profit divided by total assets. BTD have the capacity to influence the pattern of increases and decreases in company profits. Besides that, Sari et al (2020) expressed that the advantage of Book Tax Differences (BTD) is that BTD can show how the firm will try to report high accounting profits for the benefit of shareholders, but implement a strategy so that taxable profits are low.

**Government Ownership**

Government ownership is the percentage of shares owned by the government in a corporation. The existence of government ownership is signaled by the existence of companies such as Government Linked Companies (GLC) or usually in Indonesia better known as State-Owned Enterprises (BUMN). Government ownership is unique in agency conflicts, because Government-owned companies are assured of political affiliations and their company capital is not monitored (Rakayana et al., 2021). Companies that have government ownership tend to be seen as not supporting tax avoidance practices because the government as a shareholder pays more attention to social and political goals than just company profits. According to Efendi et al (2022) when the governments owns more shares, there's less chance of tax avoidance happening. This description is corroborated by the findings oaf studies performed by Andriyanto & Marfiana (2021); Wulandari & Sudarma (2021); Rakayana et al (2021) which states that tax avoidance is influenced by government ownership. Nevertheless, this contradicts the results of Efendi et al (2022) which suggest that government ownership has no impact on tax avoidance. Considering previous explanations and research, the subsequent hypothesis is drafted:

**H1: Government ownership has a negative effect on tax avoidance**

**Institutional Ownership**

Institutional ownership is the share of shares owned by certain organizations or entities, such as banks, insurance, pension funds, investment banks and other institutions. Also, institutional ownership shows cooperative ownership and will encourage improvements and supervision to improve management performance. This is because the stock provides usable power (Septanta, 2023). It can be inferred that higher institutional ownership in a corporation leads to increased managerial oversight, potentially reducing tax avoidance within the company and reduce agency conflicts.

So there is relevance between the institutional ownership variable and tax avoidance as explained by Putri et al (2022); Darsani & Sukartha (2021); Manihuruk & Novita (2023) where the research results state that there is an influence of institutional ownership on tax avoidance. However, the outcomes of this study is inverse to the outcome of the studies performed by Farizky & Setiawati (2023); Safitri & Oktiras (2023); Asalam & Kamilah (2022) which argue that institutional ownership has no bearing on the level of tax avoidance as it tends to avoid the risks posed by corporate tax avoidance practices. Additionally, it can harm the institution's good name. Considering previous explanations and research, the subsequent hypothesis is drafted:

**H2: Institutional ownership has a negative effect on tax avoidance**

**Family Ownership**

Family ownership entails holding shares in a corporation that is managed through descent or inheritance from past generations, with the business directly passed down to succeeding descendants. Family companies usually have supervisors, administrators, leaders from their own family, although it does not rule out the possibility of competent and professional external parties. The availability of family members in the corporation structure will influence the decisions taken by management and can place a majority percentage in the organization to intervene and monitor the firm's performance and operations. So the status of owner and controller of the company often cannot be separated in family companies. Situations like this can give rise to the possibility that the family as owner and controller can take personal advantage and compromise the interests of shareholders. The description above is backed up by the studies carried out by Mawaddah & Darsono (2022); Tanjuya et al (2021); Tarmizi & Perkasa (2022) which implies that family ownership does not impact tax avoidance. Nevertheless, the outcome of this study is inconsistent with the study carried out by Andriyanto & Marfiana (2021); Ayunanta et al (2020); Krisyady & Anitdac (2022) which demonstrates that family ownership influences tax avoidance. Considering previous explanations and research, the subsequent hypothesis is drafted:

**H3: Family ownership has a positive effect on tax avoidance**
Foreign Ownership

Foreign ownership constitutes the ownership of shares by individuals, legal entities, government, and entities with foreign status. In accordance with the study undertaken by Hashim et al. (2022), the higher the percentage of foreign ownership, the greater the participation rights for foreign investors in management and receive profit sharing, so that the higher the voice of foreign investors who take part in establishing firm policies, including policies that lead to tax avoidance. Agency problems arise because foreign investors are able to make managers do what investors want in order to achieve personal interests (Hasyim et al., 2022). According to Hidayat & Mulda (2019), increasing the level of share ownership by foreign parties in a firm corresponds to higher engagement in tax avoidance by the firm.

From this description, it can be seen that foreign ownership has a correlation with tax avoidance. As research has been conducted by Hasyim et al. (2022); Rahmawati & Lisiantara (2023); Wijayanti & Ayem (2022) which implies that foreign ownership affects tax avoidance. Nevertheless, this study is inconsistent with the study performed by Hidayat & Mulda (2019) which proposes that foreign ownership does not play a role in tax avoidance. Considering previous explanations and research, the subsequent hypothesis is drafted:

H4: Foreign ownership has a positive effect on tax avoidance

Political Connections

In developing countries, political connections often involve positioning individuals with government affiliations within the company's organizational structure to establish ties between the government and the company, both from the company's commissioners and directors (Apriliani & Wulandari, 2023). Companies with political connections are generally given preferential treatment by the government (Manihuruk & Novita, 2023). Based on research conducted by Listyaningrum & Satwiko (2023) stated that firms that have political links with the government will be increasingly bold in carrying out tax avoidance due to protection from the government so that the financial reports made by these companies will not be transparent. Therefore, the more political connections a corporation has, the greater the tax avoidance that the firm will carry out (Apriliani & Wulandari, 2023).

From the description above, it can be said that political connections have a correlation with tax avoidance as explained in the research outcomes Nurdin & Nadia (2022); Az'ari & Lastiati (2022); Manihuruk & Novita (2023); Farizky & Setiawati (2023) which states that political connections influence tax avoidance. Nevertheless, this is inverse to the outcomes of the study undertaken by Ibrahim et al. (2021); Apriliani & Wulandari (2023); Listyaningrum & Satwiko (2023) which proposes that political connections do not play a role in tax avoidance. Considering previous explanations and research, the subsequent hypothesis is drafted:

H5: Political connections have a positive effect on tax avoidance

Control Variables for Tax Avoidance

Profitability

Profitability is a crucial aspect of a firm's capability to generate profits; higher profitability indicates greater profit-making ability. In this research, profitability is assessed using ROA, a ratio that reflects the effectiveness of asset utilization in the company (Kasmir, 2014). ROA is also a measure of management's effectiveness in managing its investments. Putri & Illahi (2023) states that the higher the income a firm earns, the more it will influence the required income tax amount, resulting in a tendency or possibility for the company to attempt tax avoidance.

Company Size

As per Bambang (2011), company size is gauged by the equity value, sales value, or asset value of a company. Larger companies have a comparative advantage in obtaining loans over smaller ones. Therefore, larger companies are more likely to assess the risks involved in managing their tax burden (Malik et al., 2022). Companies that are classified as large will have large resources, hence companies are inclined to practice tax avoidance because large companies have personnel who are proficient in carrying out tax planning so they can emphasize the optimal tax burden. Meanwhile, the lack of taxation expertise in small companies hinders their ability to manage their tax burden efficiently.

Leverage

Leverage is one of the many financial ratios employed to examine the relationship between a firm's debt and its equity. According to Ross (2003) to estimate the level of leverage in a firm, it can be proxied using the DER. As per to Kasmir (2012) DER is a ratio utilized to specify the comparison between total debt and own capital. This ratio is valuable for understanding the portion of a firm's assets that is debt-financed. Octavia & Sari (2022) stated that the greater the DER value, it identifies that the corporation is avoiding large amounts of tax. This low tax burden would impact the company's tendency efforts to make tax avoidance.

Audit Quality

Audit quality is one way in corporate governance to control managers' actions and can prevent and detect accounting manipulation (Doho & Santos, 2020). Auditors adhere to relevant auditing standards and codes of ethics for public accountants while performing
their duties. Based on research Sidauruk & Fadilah (2020), The size of the Public Accounting Firm (KAP) is a determining factor in measuring audit quality. A quality audit process will appear when clients select and assign assignments to the big four or non-big four KAP. According to Zoebar & Miftah (2020), the incidence of fraud is lower in firms audited by the Big Four KAP than in those audited by non-Big Four KAP, therefore if the audit quality value is higher, the level of tax avoidance will be lower.

Research and Methodology

The study population comprises of all manufacturing firms recorded on the IDX from 2018 - 2022. Utilizing a purposeful sampling approach, the sample employed in the research was 40 firms with five years of research. Hence, the research employed 200 data samples. The type of data used is quantitative with secondary data sources. The data was acquired from the IDX official website, which is www.idx.co.id as well as the firm's website in question.

Operational Definition and Variable Measurement

Dependent Variable

In accordance with Sari et al (2020) Tax avoidance could be quantified using BTD, which is computed as the difference between accounting profit and taxable profit per total assets. BTD can serve as an indicator of tax avoidance because it reflects tax avoidance activities undertaken by companies related to permanent differences and temporary differences. Refers to research Sari et al (2020) Book Tax Differences (BTD) can be calculated using the following formula:

\[
\text{Book Tax Differences (BTD)} = \frac{\text{Accounting profit} - \text{Fiscal profit}}{\text{Total Assets}}
\]

\[
\text{Fiscal profit} = \frac{\text{Current tax burden}}{\text{Income tax rate}}
\]

Independent Variable

Government Ownership

Andriyanto & Marfiana (2021) states that a company can be said to have government ownership if a greater number of shares of the company owned by the government. Based on research conducted by Wulandari & Sudarma (2021) government ownership is measured in the following formula:

\[
\text{Government Ownership} = \frac{\text{Government shares}}{\text{Shares outstanding at the end of the year}}
\]

Institutional Ownership

Institutional ownership denotes the proportion of shares held by corporations or other entities, including assurance companies, pension funds, banks, investment banks, and other institutional investors. Based on research conducted by Wulandari & Sudarma (2021) institutional ownership is measured and formulated as follows:

\[
\text{Institutional Ownership} = \frac{\text{Institutional shares}}{\text{Shares outstanding at the end of the year}}
\]

Family Ownership

Family ownership is ownership of shares in a corporation passed down through the family lineage, with subsequent descendants inheriting and directly continuing the business. So according to research conducted Tarmizi & Perkasa (2022) family ownership can be measured using the formulation:

\[
\text{Family Ownership} = \frac{\text{Family ownership shares}}{\text{Shares outstanding at the end of the year}}
\]

Foreign Ownership

Foreign ownership is very crucial for the companies as the presence of foreign investors means that the company is experiencing good growth, thereby attracting other investors to invest in the company (Rahmawati & Lisiantara, 2023). Therefore, foreign ownership can be measured using a formulation (Wijayanti & Ayem, 2022):

\[
\text{Foreign Ownership} = \frac{\text{Foreign ownership shares}}{\text{Shares outstanding at the end of the year}}
\]
Political Connections

According to Asadanie & Venusita (2020), firms with political affiliations are enterprises or conglomerates that maintain strong ties with the government. Companies with political connections are generally given preferential treatment by the government (Manihuruk & Novita, 2023). Based on research Farizky & Setiawati (2023) political connections can be measured with dummy variables where:

i. 0 = for companies that do not meet the political connection criteria.
ii. 1 = for companies that meet one of the political connection criteria.

Control Variables

Profitability

According to Kasmir (2014) A ratio called ROA reveals the return generated by the company's assets. Based on research Putri & Illahi (2023) ROA can be measured using the formulation:

\[
\text{ROA} = \frac{\text{Net profit}}{\text{Total Assets}} \times 100
\]

Company Size

Hartono (2008) states that the size of a company reflects its scale, which can be gauged by total assets or the logarithm of total assets. Malik et al (2022) stated that the following company size formula can be employed to assess the company's size:

\[
\text{Company size} = \ln \text{Total Assets}
\]

Leverage

In accordance with Kasmir (2012) A ratio called the DER is utilized to compare own capital to total debt. As per research conducted by Octavia & Sari (2022) DER can be measured utilizing this formulation:

\[
\text{Debt to Equity Ratio} = \frac{\text{Total debt}}{\text{Total equity}}
\]

Audit Quality

When an auditor conducts an audit of a client's or company's financial report and discovers infractions in the customer's accounting system, that possibility is referred to as audit quality. The auditor should follow the relevant public accountant's code of ethics and audit standards in the course of performing his duties. So based on research conducted by Doho & Santoso (2020) Audit quality can be quantified utilizing dummy variables where:

i. 0 = for companies audited by non-the big four KAP.
ii. 1 = for companies audited by the big four KAP.

Findings and Discussion

Findings

Chow test and Hausman test

The Chow test is a test to select a CEM or FEM which is good for use in research, while the Hausman test is a test utilized to select a FEM or REM which is good to use. in research based on decision making H0 is accepted and H1 is rejected if the probability value is > 0.05; on the other hand, H1 is accepted and H0 is rejected if the probability value is < 0.05.

<table>
<thead>
<tr>
<th>Information</th>
<th>Statistics</th>
<th>Prob.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Test chow</td>
<td>12.506479</td>
<td>0.0000</td>
</tr>
<tr>
<td>Hausman test</td>
<td>59.709887</td>
<td>0.0000</td>
</tr>
</tbody>
</table>

Source: Results processed by Eviews 12, 2024

Based on table 1, it is observable that the Chow test's statistical value is 12.506479 with a prob value of 0.0000. Meanwhile, the statistical value for the Hausman test is 59.709887 with a prob value of 0.0000. The results of these two tests show that the prob value is < 0.05 so it can be said that H1 is accepted. Thus, a good panel data regression model according to the Chow test and Hausman test is the FEM.

From the outcomes of the panel data regression test above, the outcomes of the panel data regression equation are below:
BTD = 1.432 - 3.176PEM + 0.073ROA - 0.018SIZE + 0.018DER - 0.264KA
BTD = 1.432 + 0.073INST + 0.073ROA - 0.018SIZE + 0.018DER - 0.264KA
BTD = 1.432 + 0.609KLRG + 0.073ROA - 0.018SIZE + 0.018DER - 0.264KA
BTD = 1.432 + 0.023ASING + 0.073ROA - 0.018SIZE + 0.018DER - 0.264KA
BTD = 1.432 - 0.027KP + 0.073ROA - 0.018SIZE + 0.018DER - 0.264KA

Hypothesis testing
Partial Test (T Test)
The partial test or T-test is utilized to evaluate the significance of the independent variable on the dependent variable. It indicates a notable impact on the dependent variable if the probability value of the independent variable is < 0.05. The partial test results can be summarized in the table below and can be described as follows:

<table>
<thead>
<tr>
<th>Variable</th>
<th>Coefficient</th>
<th>Std. Error</th>
<th>t-Statistics</th>
<th>Prob.</th>
</tr>
</thead>
<tbody>
<tr>
<td>C</td>
<td>1.432215</td>
<td>0.794825</td>
<td>1.801924</td>
<td>0.0736</td>
</tr>
<tr>
<td>K_PEM</td>
<td>-3.176097</td>
<td>1.341070</td>
<td>-2.368330</td>
<td>0.0191</td>
</tr>
<tr>
<td>K_INST</td>
<td>0.072927</td>
<td>0.032433</td>
<td>2.248559</td>
<td>0.0260</td>
</tr>
<tr>
<td>K_KLRG</td>
<td>0.608924</td>
<td>0.082633</td>
<td>7.369043</td>
<td>0.0000</td>
</tr>
<tr>
<td>K_ASING</td>
<td>0.024960</td>
<td>0.021462</td>
<td>1.162993</td>
<td>0.2467</td>
</tr>
<tr>
<td>KP</td>
<td>-0.026896</td>
<td>0.047670</td>
<td>-0.564203</td>
<td>0.5735</td>
</tr>
<tr>
<td>ROA</td>
<td>0.072925</td>
<td>0.008116</td>
<td>8.983672</td>
<td>0.0000</td>
</tr>
<tr>
<td>SIZE</td>
<td>-0.018176</td>
<td>0.014021</td>
<td>-1.296323</td>
<td>0.1968</td>
</tr>
<tr>
<td>DER</td>
<td>-0.017959</td>
<td>0.183179</td>
<td>-0.098043</td>
<td>0.9220</td>
</tr>
<tr>
<td>KA</td>
<td>-0.264251</td>
<td>0.084536</td>
<td>-3.125903</td>
<td>0.0021</td>
</tr>
</tbody>
</table>

Source: Results processed by Eviews 12, 2024

Determination Coefficient Test (R^2 Test)
The R2 value can be verified from the outcomes of the adjusted R-square value test. Presented below is a table of adjusted R-square test results, including the following:

<table>
<thead>
<tr>
<th>Variable</th>
<th>Coefficient</th>
<th>Std. Error</th>
<th>t-Statistics</th>
<th>Prob.</th>
</tr>
</thead>
<tbody>
<tr>
<td>C</td>
<td>0.812016</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: Results processed by Eviews 12, 2024

The R^2 test results above show that the adjusted R-square value is 0.812016, this can be construed as the independent variables, namely government ownership, family ownership, institutional ownership, foreign ownership and political connections as well as control variables, namely ROA, Size, DER and quality variables. The audit was able to explain the effect of 81.20% on tax avoidance. Meanwhile, the remaining 18.8% can be attributed to other variables beyond the scope of this study.

Discussion
The Effect of Government Ownership on Tax Avoidance
According to the tests performed, the research outcomes show that the coefficient and t-statistic values for the government ownership variable are -3.176097 and -2.368330 with a probability value of 0.0191 < 0.05. This demonstrates that government ownership directly has a negative and significant effect on tax avoidance. The results confirm hypothesis H1, which posits that government ownership negatively affects tax avoidance.

This is due to government ownership having high authority in controlling a company. Apart from that, the government’s regulations and mechanisms are good. According to Bradshaw et al (2019) government ownership harms tax avoidance in China, especially large government companies, this is because most CEO of BUMN have received other incentives from the government. Based on the research results, it does not confirm agency theory where agency conflicts arise because government-owned companies are assured of political connections and their company capital is not monitored (Rakayana et al., 2021). However, having government ownership can be said to be almost the same as having strict supervision from the tax authorities. So that companies pay more attention to social and political goals than just company profits. The outcomes of this study are congruent with the study performed by Bradshaw et al (2019) which implies that government ownership negatively and significantly affects tax avoidance.
The Effect of Institutional Ownership on Tax Avoidance

According to the tests performed, the research findings for the institutional ownership variable exhibit a coefficient value of 0.072927 and a t-statistic value of 2.248559 with a probability value of 0.0260 < 0.05. This implies that institutional ownership directly has a positive and significant effect on tax avoidance. Therefore, it can be inferred that hypothesis H2, which suggests that institutional ownership negatively impacts tax avoidance, is not supported.

This research shows results that are contrary to the hypothesis, meaning that higher institutional ownership in a firm leads to a more assertive approach in reducing tax payments. According to Putri et al. (2022), high institutional ownership exerts considerable amount of pressure from the owners of the firm on management to minimize tax payments for maximizing net profits. Based on the research results, it contradicts the agency theory, which posits that institutional ownership in a firm can control and monitor management actions. With institutional ownership in place, there is no guarantee that it will serve as the controlling entity overseeing management actions. Institutional ownership that does not carry out proper supervision can potentially cause tax avoidance to continue to occur in the company. The outcomes of this study are congruent with the study performed by Irsan (2020) and Putri et al (2022) which states that institutional ownership directly has a positive and significant effect on tax avoidance.

The Effect of Family Ownership on Tax Avoidance

According to the tests performed, the research results for the family ownership variable show that the coefficient value is 0.608924 and the t-statistic value is 7.369043 with the resulting probability value being 0.0000 < 0.05. This implies that family ownership directly has a positive and significant effect on tax avoidance. The results confirm hypothesis H3, which posits that family ownership positively affects tax avoidance.

This research presents findings that are congruent with the hypothesis, which suggest that the higher the proportion of family ownership, the greater the tax avoidance. According to Kovernmann & Wendt (2019) assumes that the family obtains personal benefits from controlling the company because the family has greater control, tax avoidance is expected to be greater. Besides that, Ayunanta et al (2020) believes that this can happen because Indonesia used self-assessment system where taxpayers perform calculations, reporting and paying taxes so that they can easily perform tax avoidance actions. The findings of this study support agency theory, where the family as the main shareholder chooses to take more profits from tax avoidance and can sacrifice the interests of minority shareholders. Tax avoidance actions perform by the family are used to hide losses, cover up rent extraction behavior and deceive minority shareholders (Andriyanto & Marfiana, 2021). The outcomes of this study are congruent with studies performed by Kovernmann & Wendt (2019); Andriyanto & Marfiana (2021); Ayunanta et al (2020); Krisyadi & Anita (2022) which implies that family ownership positively and significantly affects tax avoidance.

The Effect of Foreign Ownership on Tax Avoidance

According to the tests performed, the research results for the foreign ownership variable show that the coefficient value is 0.024960 and the t-statistic value is 1.162993 with a probability value of 0.2467 > 0.05. This implies that foreign ownership directly has a positive and insignificant effect on tax avoidance. Where it can be inferred that hypothesis H4 which implies that foreign ownership positively affects tax avoidance is not supported.

This research shows results that are contrary to the hypothesis, which means that foreign investors who invest their capital in a firm will not influence the company to avoid tax. It can be said that the greater the percentage of foreign ownership in a firm, the smaller the possibility that the company will avoid tax. According to Vita (2023), this happens because foreign investors do not care whether the company is evading tax or not evading tax because the aim of foreign investors in investing is to make a profit. Based on the research results, it contradicts the agency theory, which posits that agency problems arise because foreign investors are able to make managers do what investors want in order to achieve personal interests. Because according to Fitriani et al (2021) foreign investors focus more on the return on their shares, so that foreign parties do not interfere with how management runs the company to make a profit. The outcomes of this study are congruent with studies performed by Hidayat & Mulda (2019); Fitriani et al (2021); Vita (2023) which states that foreign ownership positively and insignificantly affect tax avoidance.

The Influence of Political Connections on Tax Avoidance

According to the tests performed, the research results for the political connection variable show a coefficient value of -0.026896 and a t-statistic value of -0.564203 with a probability value of 0.5735 > 0.05. This implies that direct Political connections negatively and insignificantly affect tax avoidance. So it can be inferred, that hypothesis H5 which proposes that political connections contribute positively to tax avoidance is not supported.

This research shows results that are contrary to the hypothesis, meaning that the greater the political connections in the firm do not affect the level of tax avoidance. According to Apriliani & Wulandari (2023), this is because there are no regulations in the tax law that regulate higher or lower tax rates in the company’s political relations with the government. The closeness of companies to politics means decision-making in companies will become more meticulous so that they continue to receive awards from the government as obedient taxpayers. Besides that, Ibrahim et al (2021) also believes that The presence of political connections among executives does not lead to executives being more daring in carrying out tax avoidance actions. The company selects commissioners or directors who have political affiliations to create a more favorable environment. Conversely, This study is congruent with research performed by
Ibrahim et al. (2021); Listyaningrum & Satwiko (2023); Apriliiani & Wulandari (2023) which implies that political connections have a negligible and negative impact on tax avoidance.

Conclusions

The study delves into the intricate dynamics of tax avoidance among manufacturing firms in Indonesia, examining the influence of ownership structures and political connections. It begins by contextualizing the significance of taxes for national development and contrasting the perspectives of governments and firms regarding tax obligations. Drawing on previous literature, the study identifies government ownership, institutional ownership, family ownership, foreign ownership, and political connections as key factors influencing tax avoidance behavior among firms.

Through empirical analysis, the study confirms various hypotheses regarding the impact of these factors on tax avoidance. Specifically, it finds that government ownership and family ownership exert significant effects on tax avoidance, with government ownership negatively impacting and family ownership positively influencing tax avoidance behavior. However, the expected negative relationship between institutional ownership and tax avoidance is not supported, indicating a more assertive approach to tax management among firms with higher institutional ownership.

Furthermore, the study explores the influence of foreign ownership and political connections on tax avoidance. Contrary to expectations, foreign ownership is found to have an insignificant effect on tax avoidance, suggesting that foreign investors prioritize profit maximization over tax management strategies. Similarly, the presence of political connections within firms does not significantly impact tax avoidance behavior, indicating a lack of regulatory mechanisms governing tax rates based on political affiliations.

Overall, the study contributes to understanding the complex interplay between ownership structures, political connections, and tax avoidance behavior in Indonesia’s manufacturing sector. By employing panel data regression models and hypothesis testing, it provides valuable insights for policymakers and stakeholders aiming to address tax avoidance challenges and enhance tax compliance among firms.

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Keriluarga Institusional Terhadap Penghindaran Pajak Di Indonesia (Study Empiris Pada Perusahaan Food and Beverage


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